



Retail Competition and the FERC SMD NOPR

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FERC'S STANDARD MARKET DESIGN NOPR SHOULD ENHANCE COMPETITION

- Constellation NewEnergy generally supports FERC's market model and strongly supports the goal of promoting competitive markets.
- Standardized market design will help remove barriers to entry and provide incentive for infrastructure development.
- The SMD NOPR is the most recent in a sequence of NOPRs that break deadlocks over direction, if not details.
- FERC has allowed market priced wholesale deals, pushed open access transmission as a condition for mergers etc., & licensed marketers under less stringent rules.
- SMD-NOPR builds on about 20 years of FERC experience adapting system to movement toward competition.
- Roughly half the kilowatt hours in the country are under some type of retail open access regime.



WHAT CAN THE NOPR ACCOMPLISH?

- The SMD NOPR provides an outline for
 - Institutionalizing a variety of practices that have emerged on an ad hoc basis;
 - Beginning to bring regional markets at different level of development to a common footing;
 - Creating conditions at the wholesale level that can accommodate retail competition when decided upon by the individual states;
 - Addressing a set of conundrums that have so far eluded resolution.
- Will FERC combination of Resource Adequacy Requirements, Price Caps, Locational Marginal Cost Pricing and Congestion Revenue Rights send signals soon and clearly enough to moderate extreme swings and facilitate Demand Response & Market Monitoring?
- FERC has made respectable proposals to address the single greatest political risk to the movement toward competition.
- FERC has consciously sought to learn lessons from other experiences (states, overseas, emissions trading).
- SMD contemplates ongoing adjustments which will be necessary as markets evolve.



STATE RESPONSE AND NEXT STEPS

- Nearly half the states have indicated some support for SMD in order to enhance move to retail access or to achieve efficiencies.
- Some of the supporting states remain concerned about precise division of labor and cost shifts.
- State in West and South showing opposition for varying reasons: The opposition may eventually be addressed through regional accommodations and timing compromises.
- We encourage state regulators and other stakeholders to address their concerns with FERC and work toward solutions to barriers to interstate commerce in electricity.
- Essential to stay on course and to adhere to as much as possible to the planned time line
- Consider unintended consequences:
 - Will the proposed RAR hurt retail competition?
 - Will we strike the right balance between standard design and regional flexibility?